

STATE OF TENNESSEE
DESCRIPTION OF TAX SOURCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 1999

Presented below is a brief description of the state's principal tax sources as shown in the preceding table. Since portions of some of these taxes are ultimately distributed to local governments, the preceding table reflects only those tax collections retained for state purposes.

SALES AND USE TAX - The retail sales and use tax, imposed in 1947, is the state's leading source of revenue. The current rate of 6.0% was made effective April, 1992. The tax is applied to the sale, use, consumption, distribution, lease or rental of tangible personal property and certain services and, effective June 1, 1985, was extended to include most admission and amusement charges. Political subdivisions, governmental agencies, charitable and religious groups, non-profit organizations and certain items of tangible personal property including drugs are exempt.

SERVICES TAX - The services tax was enacted as of July 1, 1992. Vendors are taxed at a rate of 6.75% for services provided such as repairs to equipment, installation of equipment and certain other specific services. This act repeals the state and local use tax on services and amusements as well as exempting certain services from the tax altogether. The services tax expired December 31, 1993.

GASOLINE TAX - The gasoline tax was first enacted in 1923. The tax was increased to 20 cents per gallon on July 1, 1989, and is charged on each gallon of gasoline or distillate refined, manufactured, sold, stored or distributed in Tennessee, as well as gasoline or distillate imported into the state. Refunds are granted on gasoline used for agricultural purposes, while political subdivisions and governmental agencies are exempt.

MOTOR FUEL TAX - The motor fuel tax was enacted in 1941. The tax was imposed on the sale of diesel fuel and as of April 1, 1990 the current rate is 17 cents per gallon. Effective July 1, 1984, a tax was levied on motor vehicles powered by liquified gas at rates ranging from \$70 for passenger cars to \$114 for the largest trucks. Owners of commercial vehicles may be charged additional tax based on number of miles driven in Tennessee. Effective April 1, 1989, out of state residents are taxed at a rate of 14 cents per gallon for liquified gas.

SPECIAL PETROLEUM PRODUCTS TAX - The special Petroleum Products Tax (formerly Gasoline Inspection Fee) was first enacted in 1899 for the purpose of assuring that gasoline and oil sold in the state met certain minimum standards. The rate was 1 cent per gallon in 1989 and went to 1.4 cents per gallon on May 1, 1990 on volatile substances having certain gravity levels which are produced from petroleum, natural gas, oil shales, or coal.

MOTOR VEHICLE REGISTRATION FEES - Since 1905 a fee has been charged for the registration of motor vehicles. Vehicles for personal use are charged \$21.50. The fee for motorcycles is \$10.75. Motor freight vehicles are charged fees ranging from \$40.25 to \$1,302.75.

INCOME TAX - Although Tennessee does not levy a general personal income tax, income derived from dividends and interest on stocks and bonds has been subject to tax since 1929. The tax rate is 6% on dividends from stocks, and interest on bonds, subject to an exemption of \$1,250 for individuals and \$2,500 for joint tax returns. Blind persons, pension trusts, profit-sharing trusts and qualifying low income persons 65 years of age or older are exempt from the tax.

PRIVILEGE TAX - The first state privilege tax in Tennessee was levied in 1799. During the ensuing 150 years, 132 business activities were made subject to the tax. Virtually all of these business-related privilege taxes were abolished in 1971 and re-enacted as part of other taxes. Currently, the privilege tax base is provided from litigation taxes, realty transfer, mortgage taxes, marriage license fees, professional taxes and tire taxes.

GROSS RECEIPTS TAXES - There have been numerous additions, deletions and alterations in the group of taxable privileges comprising the gross receipts tax since it was first imposed in 1937. Currently, the tax covers bottlers, mixing bars, utilities, firearms, and vending machines. TVA payments "in lieu of taxes" based on power sales in Tennessee make up over 75% of collections.

ALCOHOLIC BEVERAGE TAX - The alcoholic beverage tax was enacted in 1939, authorizing the sale of alcoholic beverages in counties and municipalities in Tennessee if approved by local referendum. It provided for a system of state licensing fees and established a gallonage tax on wines and liquors sold in the state. Currently, the tax is levied at the rate of \$4.00 per gallon on distilled spirits and \$1.10 per gallon on wines, with additional fees for regulatory purposes and for the issuance of licenses and permits.

FRANCHISE TAX - The franchise tax, first collected in 1937, imposes an annual tax for the privilege of engaging in business in the form of a corporation, Limited Liability Corporation and Limited Liability Partnership in the state. The tax is levied at the rate of \$.25 per \$100 of corporate stock, surplus and undivided profits of domestic and foreign corporations operating in Tennessee.

EXCISE TAX - The excise tax originated in 1923 and has always been a major revenue source. The tax is presently applied at the rate of 6% on annual net earnings or the larger of stock or real and tangible property from business corporations, co-operatives conducted for profit, joint stock associations, business trusts, state banks, national banks and savings and loan associations.

INHERITANCE, ESTATE AND GIFT TAXES - The inheritance tax was first enacted in 1891. Originally, the tax was applicable only to property going to collateral heirs, but was extended to direct heirs in 1909. The tax applies to all property, real and personal, with certain exemptions.

TOBACCO TAXES - Tobacco taxes were first levied in 1925. The present tax equates to 13 cents per pack of 20 cigarettes and 6% of the wholesale cost for all other tobacco products.

INSURANCE COMPANY PREMIUM TAX - This tax, first enacted in 1945, is applied to gross premiums paid by or for policyholders residing in this state or on property located in the state. The rate is 1.75% for domestic life insurance companies, 2% for foreign life insurance companies, 2.5% for property and casualty insurance companies and 4% workers compensation premiums.

MEDICAID PROVIDER TAX - The Hospital Medicaid Provider Tax has been in effect since July 1, 1989. The tax is directly proportional to the hospital's Medicaid utilization rate, low income utilization rate, or large volume of Medicaid days per year. The Nursing Home Medicaid Provider Tax, which has been in effect since July 1, 1990, is based on the number of licensed beds physically located in the state.